

requisitioned by various production units in the plant. Since prices of material are expected to fluctuate at different rates, this plant-wide grouping does not constitute a homogeneous grouping of material. Contractor D's practice does not comply with provisions of 9904.407-50(b)(2) of this Cost Accounting Standard. However, if he would maintain several purchased-items inventory accounts, each representing a homogeneous grouping of material, and maintain a material-price variance account for each of these homogeneous groupings of material, Contractor D's practice would comply with 9904.407-50(b)(2) of this Cost Accounting Standard.

(e)(1) Contractor E recognizes material-price variances at the time purchases of material are entered into the books of account and allocates variances at the end of each month. During the month of May, a homogeneous grouping of material has accumulated the following data:

| | Material cost at standard | Material price variance |
|-------------------------|---------------------------|-------------------------|
| Inventory, May 1 | \$150,000 | \$20,000 |
| Additions in May | 1,850,000 | 120,000 |
| Total | 2,000,000 | 140,000 |
| Requisitions: | | |
| Production Unit 1 | 900,000 | |
| Production Unit 2 | 450,000 | |
| Production Unit 3 | 300,000 | |
| Production Unit 4 | 150,000 | |
| Inventory, May 31 | 200,000 | |

(2) Contractor E establishes a material-price variance rate of 7% (\$140,000 ÷ \$2,000,000) and allocates as follows:

| | Material cost at standard | Material price variance rate (%) | Material price variance allocation |
|--|---------------------------|----------------------------------|------------------------------------|
| Production Unit 1 | \$900,000 | 7 | \$63,000 |
| Production Unit 2 | 450,000 | 7 | 31,500 |
| Production Unit 3 | 300,000 | 7 | 21,000 |
| Production Unit 4 | 150,000 | 7 | 10,500 |
| Ending inventory of homogeneous grouping of material | 200,000 | 7 | 14,000 |
| Total | 2,000,000 | | 140,000 |

Contractor E's practice complies with provisions of 9904.407-50(b)(3)(ii) of this Cost Accounting Standard.

(f)(1) Contractor F makes year-end adjustments for variances attributable

to covered contracts. During the year just ended, a covered contract was processed in four production units, each with homogeneous outputs. Data with respect to output and to labor of each of the four production units are as follows:

| Production unit | Total units of output | Total units used by the covered contract | Total labor costs at standard | Total labor-cost variance |
|-----------------|-----------------------|--|-------------------------------|---------------------------|
| 1 | 100,000 | 10,000 | \$400,000 | \$20,000 |
| 2 | 30,000 | 6,000 | 900,000 | 30,000 |
| 3 | 20,000 | 5,000 | 600,000 | 10,000 |
| 4 | 10,000 | 4,000 | 500,000 | 20,000 |

(2) Since the outputs of each production unit are homogeneous, Contractor F uses the units of output as the basis of making memorandum worksheet adjustments concerning applicable variances, and establishes the following figures:

| | Labor-cost variance per unit of unit | Units used by the covered contract | Labor-cost variance attributable to the covered contract |
|--|--------------------------------------|------------------------------------|--|
| Production Unit 1 | \$0.20 | 10,000 | \$2,000 |
| Production Unit 2 | 1.00 | 6,000 | 6,000 |
| Production Unit 3 | .50 | 5,000 | 2,500 |
| Production Unit 4 | 2.00 | 4,000 | 8,000 |
| Total labor-cost variance attributable to the covered contract | | | 18,500 |

(3) Contractor F makes a year-end adjustment of \$18,500 as the labor-cost variances attributable to the covered contract. Contractor F's practice complies with provisions of 9904.407-50(e) of this Cost Accounting Standard.

[57 FR 14153, Apr. 17, 1992; 57 FR 34167, Aug. 3, 1992]

9904.407-61 Interpretation. [Reserved]

9904.407-62 Exemption.

None for this Standard.

9904.407-63 Effective date.

This Standard is effective as of April 17, 1992. Contractors with prior CAS-covered contracts with full coverage shall continue this Standard's applicability upon receipt of a contract to